

OVERVIEW OF WISCONSIN PROPERTY TAX 2005

Note: IPAS RFP Dictionary (including acronyms) is Attachment K.

Municipalities are the primary units of property tax administration. Sec. 70.045, Wis. Stats., designates a property taxation district as a municipality, the town, village or city, in which general property taxes are levied and collected, also see sec. 74.01(6), Wis. Stats., for split districts.

A separate property tax roll is prepared annually for each of the 1,851 municipalities (1,907 taxation districts and 800+ tax incremental finance districts) in the state. The tax roll is the official record of the amount of taxes levied against property located within the municipality, and of the portion of that tax which will be paid by state tax credits. The municipal clerk delivers a new tax roll and tax roll certificate to the municipal treasurer each December. The names and the property descriptions combined in the tax roll come from the assessment roll, which is the official record of the taxable value of property within the municipality as of January 1st each year.

The law requires that the local assessor assess all property not exempt by law, which has any real or marketable value. The assessor must identify and separate into classes all the real and personal property within the municipality.

Professionally Acceptable Appraisal Practices

1991 Wisconsin Act 39 changed sec. 70.32, Wis. Stats., to require Wisconsin assessors to assess according to professionally acceptable appraisal practices. These professionally acceptable practices are ideals, beliefs, and procedures held and used by the appraiser and assessment communities. These are further defined by performance and technical standards and codes of behavior.

Performance and Technical Standards

Article VIII of the Wisconsin Constitution written in 1848 sets the uniformity standard for real estate taxation, stating “The rule of taxation shall be uniform but the legislature may empower cities, villages or towns to collect and return taxes on real estate located therein by optional methods.” The Constitution was amended in 1974 to allow variations in the assessed values of different types of land. The amended language is “Taxation of agricultural land and undeveloped land, both as defined by law, need not be uniform with the taxation of each other nor with the taxation of other real property.” The tax rate is standard for each class of property; however, the “taxation” differs based on the assessed values. Agricultural land is currently assessed at use value; undeveloped and agricultural forest land is assessed at 50% of full value.

Wisconsin law has two rule standards that measure quality and performance. They are addressed in secs. 70.32 and 70.05 Wis. Stats. Section 70.32 Wis. Stats. requires all property except agricultural, undeveloped and agricultural forest to be assessed at full value. Section 70.05 Wis. Stats. requires each major class of property (except agricultural) to be within ten percent of market value at least once in the past four years. This section of the statutes also defines “major class of property” and the sequence of events for failure to comply with the ten percent standard.

Wisconsin’s technical standards are incorporated in the *Wisconsin Property Assessment Manual* (WPAM) (Attachments E and F). These standards are the product of research in property valuation, assessment administration, and property tax policy. The research material in the manual comes from professional organizations such as the Wisconsin Association of Assessing Officers (WAAO), the International Association of Assessing Officers (IAAO), and the Appraisal Foundation.

The primary document for defining assessment standards and practices in Wisconsin is the WPAM. The authority for preparing this manual comes from sec. 73.03, Wis. Stats. This law requires the Department of Revenue (DOR) prepare a manual that “shall discuss and illustrate accepted assessment methods, techniques and practices with a view to more nearly uniform and more consistent assessments of property

at the local level.” The statute also requires “the manual shall be amended by the department from time to time to reflect advances in the science of assessment, court decisions concerning assessment practices, costs, and statistical and other information deemed valuable to local assessors by the department.” The Assessment Manual is updated each year for changes in Wisconsin laws. The cost manual (WPAM Vol. II) was revised in 2001, and is updated annually with local cost modifiers.

The WPAM specifies valuation methods and techniques, administrative practices, and policy and legal decisions. To this extent, it specifies standards of practice within the State.

Statutes Governing Assessments

For purposes of taxation, property in Wisconsin is divided into general property and exempt property. General property is defined as all property that has not, by law, been exempted from general property taxes. (Chapters 70, 76, and 77 of the Wisconsin Statutes specify the types of property that are exempt.) General property taxes are levied by the state and by local taxing jurisdictions and are charged to a unit of property in the same proportion that the unit’s value is to the total property value within the jurisdiction.

General property is divided into two broad categories, real property and personal property. Real property is land, any improvements that have been attached to the land, and all fixtures, rights, and privileges pertaining thereto. Personal property includes all goods, wares, merchandise, chattels, and effects, of any nature or description having any real or marketable value, and not included in real property.

General real property in the State must, by law, be divided into the following eight classes, according to use:

1. Residential
2. Commercial
3. Manufacturing
4. Agricultural
5. Undeveloped Land
- 5m. Agricultural Forest
6. Productive Forest Land
7. Other (Farm buildings, improvements, and land site)

The Statutes also require that general personal property be placed in one of the following categories:

- steam and other vessels
- machinery, tools and patterns
- furniture, fixtures and equipment
- all other general personal property

It is the job of the assessor to estimate the value of property as of January 1 and to record this information in the assessment roll. All real property is recorded in one section of the assessment roll while personal property is recorded in a separate section.

Sec. 70.32, Wis. Stats., refers to the assessment of real property. Usually, parcels of real property will be 40 acres (a quarter-quarter section) or smaller pieces (blocks or lots, for example) derived from the subdivision of an original 40 acre parcel. Whatever its size, or legal description, every parcel of general real property which is listed separately in the roll must have a value for land, and for improvements, if there are any, which will be used in the calculation of the tax to be charged against the property. In addition to estimating the value of a property, the assessor must classify it according to use. If a legal description of real property contains different classes of property, the assessor must indicate how much of the parcel’s total acreage and value is within each class (refer to WPAM chapter 11 for specifics on how to value agricultural property under Wisconsin Agricultural Use Value law). The name and address of the owner or other person or company responsible for the tax is also entered next to the property description in the assessment roll.

The law, under sec. 70.30, Wis. Stats., also refers to the assessment of the several items of personal property which are to be separately valued and taxed. The assessor must list the name of each person who

will be charged a general tax on personal property, and enter the item number and value of the items that the person will be taxed.

Department of Revenue (DOR)

DOR is responsible for the administration of state tax laws, the establishment of equalized values for local governments, the supervision of property tax implementation, and the administration of several local aid and property tax relief programs. SLF is one of six divisions in DOR.

Secretary of Revenue

The Secretary is the head of DOR, and through division personnel, administers the full range of tax, inspection, and supervision laws contained in the Wisconsin Statutes. The Secretary of Revenue, upon appeal and adjudication, orders reassessments, supervised assessments and revaluation of individual assessments established by municipal Boards of Review.

Division of State and Local Finance (SLF)

SLF is comprised of the Bureau of Assessment Practices (BAP) and the Bureau of Property Tax (BPT). SLF administers the property tax within the State, establishes uniform assessment standard and practices, establishes the equalized values, assesses manufacturing and utility properties, and administers the distribution of local aids, shared revenues and the State's property tax credit programs.

Bureau of Assessment Practices (BAP)

BAP establishes uniform assessment standards, certifies local assessors and assessment personnel, develops property tax related publications, and assists local governmental officials and property owners with the Board of Review and appeal questions.

In addition, BAP maintains the WPAM, and coordinates content and format of various educational and training activities directed to municipal assessors through the statewide technical college system, the annual assessors' conferences, the League of Wisconsin Municipalities, the Wisconsin Town's Association, and other groups. This educational effort recognizes that accurate equalized values are difficult to achieve without the benefit of fair and equitable assessments at the local level. BAP administers the examination and certification of local assessors.

BAP provides assistance to assessors and is responsible for various regulatory duties, as outlined in Chapter 73, Wis. Stats., such as providing supervision of municipal Board of Review and other governmental units toward the objective of uniform assessments throughout the state and proposing improvement of existing laws.

Bureau of Property Tax (BPT)

BPT is comprised of the following Sections: Equalization, Manufacturing and Utility, and Local Government Services.

Equalization Section

The Equalization Section estimates equalized values for entire towns, villages and cities. Other functions of this Section include the following: (1) providing direct supervision and assistance to local units of government by meeting annually with local assessors for the purpose of instruction in assessment laws and techniques; (2) processing of petitions submitted by property owners to seek reassessment of entire municipalities provided by sec. 70.75, Wis. Stats.; (3) supervising municipal revaluations under sec. 70.055, Wis. Stats., (4) administrating individual assessment appeals under sec. 70.85, Wis. Stats., (5) administering the real estate transfer return program, and (6) monitoring assessment compliance under sec. 70.05, Wis. Stats.

Manufacturing and Utility Section

The Manufacturing and Utility Section is responsible for the annual market value assessment of all taxable real and personal manufacturing and telephone company property in the state pursuant to secs. 70.995 and 76.82, Wis. Stats. Municipal assessors with manufacturing property in their districts are notified prior to January 1 of each year which parcels will be assessed by the Department for the next assessment year. All objections to manufacturing assessments and exempt computer values are investigated by the State Board of Assessors. The State Board of Assessors is chaired by the Manufacturing and Utility Section Chief. Other members of the Board are the Manufacturing and Utility Section central and district managers. Under sec. 70.995(14), Wis. Stats., each municipality with manufacturing property pays a fee for the services provided by the BPT.

The Manufacturing and Utility Section is also responsible for auditing other utility and special taxes. The assessment of the property of utility companies is the joint responsibility of both the Section and the various local assessors because the law provides that all property of utility companies which is not used for utility business purposes is to be assessed locally, while property used for utility purposes is to be assessed by DOR. In addition, structures used in part for the operation of a public utility and in part for non-operating purposes, are assessed in part by the local assessor and in part by DOR. The local assessor assesses the portion of the structure that represents the extent of its use for non-utility purposes. DOR values the portion used for utility purposes.

Light, power, carline companies, and rural electric associations are taxed on a gross revenue method. Ad valorem taxes are based on the value of the property. The tax rate is determined by DOR and is computed by dividing the net aggregate property tax levied by all units of government by the equalized value of all general property in the state. Under the gross revenue method, taxes are based on receipts, and the various tax rates are statutorily specified.

Most state assessed utility tax revenues are designated as state funds. Revenue from airline and railroad companies is program revenue for use by the Wisconsin Department of Transportation. Certain taxes paid by railroad companies and attributable to terminal properties are returned to the municipalities where the terminal is located.

Local Government Services Section (LGS)

Control of public spending, sound land use, administration of local assistance programs, and stimulation of economic growth, are all policy areas affected by several interrelated units of government - federal, state, county, municipal, and special districts. The services provided in a given locality may receive support financially by various governmental units, in the form of state shared revenue payments, school aids, local license fees, etc. Therefore, an evaluation either locally or statewide of each local government unit's fiscal status is difficult without the compilation of accurate and timely information. LGS was created to assist in the collection, verification, and certification of fiscal information.

Certification of fiscal information is an important function of LGS and affects every owner of general taxable property in the state. Annually, on or before October 1, LGS certifies to the Department of Public Instruction the full value of general property of school districts for the apportioning of property taxes for school purposes. The Department of Public Instruction then certifies the appropriate full values to each school district clerk. The apportionment of the general property tax portion of the school budget is based on the full value of each municipality, or part of a municipality, located within the school district.

Annually, LGS certifies the full value of the general property for Wisconsin Technical College Districts that is used in apportioning the general property tax portion of their budgets to the underlying municipalities. LGS also certifies the full value of town sanitary districts, metropolitan sewerage districts, and lake protection and rehabilitation districts.

LGS determines the amounts of general property tax relief, including school levy tax credits and the lottery and gaming credit pursuant to s. 79.10 Wis. Stats. The maximum property value eligible for the lottery and gaming credit payment is certified and provided each November to municipal clerks. In March of each year the actual payments due to each municipality is provided to the Department of Administration (DOA). DOA processes the payments through the state's bank for the municipalities.

LGS also determines and certifies the municipal and county amounts of state shared revenues. Payments are distributed twice a year, 15% in July and 85% in November.

LGS determines state aids to municipalities, counties, school districts and other taxing jurisdictions for exempt computers.

The State Average Full Value Rate is determined and certified by LGS for purposes of ad valorem taxation of certain utility and railroad properties. LGS provides to the Department of Natural Resources (DNR) annually an adjustment factor based on the change in equalized values and the level of assessment. This certification facilitates DNR's administration of the Payment in Lieu of Taxes (PILOT) on Stewardship Lands. LGS also makes numerous other certifications that permit borrowing by towns, villages, cities, school districts and other special purpose districts.

Discussion of Equalized Value

The equalized value is the estimated value of all taxable real and personal property in each taxation district, by class, as of January 1 and certified by DOR on August 15 of each year. The value represents market value (most probable selling price), except for agricultural property, which is based on its use value (ability to generate agricultural income) and undeveloped property and agricultural forest, both of which are based on 50% of their market value. It is computed independently from the estimate of the local assessor. The local assessor estimates the value of *each parcel*; SLF estimates the value of the *entire* town, village or city.

The value is determined for each taxation district, which includes every town, village and city plus those portions that are located in adjacent counties. As of January 1, 2004, there were 1851 municipalities and 1907 taxation districts. The value is also determined for each Tax Incremental Finance (TIF) district within the taxation district. As of January 1, 2004 there were 832 TIF districts.

The Wisconsin Constitution required that the property tax should be uniform, and that has been interpreted by the Supreme Court to mean the 'taxable class' should bear its tax burden based on its value as a percentage of the total value. Wisconsin voters changed the 'uniformity' clause in the constitution in 1974 to allow for non-uniform taxation of agricultural land and undeveloped land. The valuation of agricultural land was fully implemented based on its potential to generate agricultural income, rather than its most likely sale price. Undeveloped land and agricultural forest land are assessed at 50% of market value.

The annual establishment of the equalized value of every municipality in the state requires the development of over 64,000 statutorily required figures in 1,907 taxation districts. SLF uses five methods to determine equalized values: (1) sales analysis, (2) use value analysis, (3) property appraisal, (4) local reports, and (5) sec. 70.57, Wis. Stats., corrections.

(1) Sales Analysis: Sales are analyzed through two principal methods: (a) the assessment-to-sales ratio studies and (b) the unit value projections. The sales that form the basis of the analysis represent the calendar sales for the year prior to the January 1 being estimated (the calendar year sales in 2003 were the basis of analysis for the January 1, 2004 values). The Real Estate Transfer Returns (RETR's), filed with the county register of deeds, and form the database of all sales in the state. About 60% represent non-market sales (family sales, sheriff sales, trust activity or transfers of convenience). The obvious non-market transactions are eliminated. Other unusable sales are brought to SLF's attention by the local assessor throughout the year, when providing assessments for usable sales.

(a) Assessment/sales studies compare actual selling prices of residential and commercial market sales with the local assessment of the property sold. If the sales evidence represents a reasonable cross section of the type of properties existing in the community as a whole, and there are a sufficient number of sales, the relationship between the sales and assessments is assumed to reflect the overall accuracy of the total assessed value of that class. This relationship is considered to be its assessment level. The total local assessment of that class is then ratioed to full value, resulting in the statistically derived equalized value of that class. Annually these assessment/sales studies amount to the review of approximately 240,000 real estate transfers of which 40% are usable.

All market sales are sorted according to taxation district (town, village or city). Market sales are those sales made between a willing buyer and a willing seller, both of whom are familiar with the property and under no compulsion to act. The market sales within a taxation district are broken down by classification of property as defined by statute i.e., residential, commercial, agricultural, etc. A ratio is then established between the total price paid for all property sold and the total assessed value of the property (obtained from the local assessment roll).

- (b) Unit value sales analysis is used by SLF to value property classified by municipal assessors as agricultural forest land, undeveloped, productive forest land or other (farm sets and the land site). Sales (38 acres or larger) are verified and broken down into their component parts to identify average selling prices per acre and the contributory value of any improvements (houses, barns, and other improvements to the land). The average selling prices per acre of land are then used to estimate the market value of all lands so classified by municipal assessors. Annually, approximately 4,700 transactions are analyzed in this manner statewide.

(2) Use Value Analysis: DOR, in conjunction with the University of Wisconsin's Department of Agriculture and the UW Extension, staffs the activities of the Farmland Advisory Council which approves the final use value guidelines. The procedures utilize two steps to estimate values on a per acre basis for each municipality containing agricultural land. In the first step, values are estimated from the income that could be generated by the land divided by the capitalization rate. In the second step the values produced by the income approach are adjusted based on land rental information compiled by the University of Wisconsin-Extension agents. The design of the data and calculations (using 5 year averages and accounting for detail from each municipality, like the local tax rates), remove the short term fluctuations, create individual municipal values and respond to the data limitations encountered with limited corn production in the northern part of the state. These values are calculated for 3 grades of tillable soils and for pasture.

(3) Property Appraisals: Sample appraisals are used by SLF on a cyclical basis as a further test of the quality of sales-based value projections. Where there is a lack of sales activity, appraisals are substituted in an analysis similar to the assessment/sales method. This involves the selection of a randomly chosen sample of properties (in the same class) to be appraised in detail. Sales that do occur are field verified and incorporated in the analysis. The value indicated by the appraisals is compared to the locally assessed values to develop a ratio of assessments to appraised values. The information gained from this analysis is used as a guide in valuing the entire class.

(4) Local Reports: There are two significant annual reports which SLF uses in setting the current equalized value, (a) the Assessor's Final Report, due by the second Monday in May, and (b) the Clerk's Statement of Assessments, which is due by the second Monday in June.

(5) Sec. 70.57, Wis. Stats., Corrections-A significant effort is expended in reviewing the prior two years' equalized values determinations. Final Reports filed late by municipal assessors are the primary source for such corrections. The corrections applied to the subsequent year include adjusting the beginning value calculation plus adding (or subtracting) a correction to reverse the benefits (or disadvantages) as a result of the earlier year's equalized value.

Finalizing Equalized Values: Using one or more of the techniques described for the development of value, SLF determines the taxable value of each class of real estate and personal property in each municipality in the state. The municipal totals become the state equalized value. This value and the value of each county are certified on August 15 of each year. In addition, values for each Tax Incremental Financing (TIF) District are calculated based on the Assessor's Final Report and the economic adjustment applied to the overall municipality. The TIF incremental value is calculated and incorporated into the apportionment values provided to the county at that same time.

Establishing School District Equalized Values: The typical Wisconsin school district is comprised of some whole municipalities and some parts of municipalities. The school district's equalized value is derived by adding the equalized values of the municipalities (or parts of municipalities) within the district's boundaries. SLF determines how much of the equalized value in each municipality is located in each school district based on the district's percent of the assessed value reported in the Clerk's Statement of Assessments. The various municipal values that are in the same school district are grouped together. The school district's levy is apportioned to each municipality based upon each municipality's percentage of the total equalized value in the school district.

Discussion of Manufacturing and Utility Assessment

The assessment of manufacturing property for the local property tax is the responsibility of DOR, Manufacturing and Utility Section. SLF assesses only property classified as manufacturing and administers the exemptions for manufacturing machinery and equipment and for waste treatment facilities located at manufacturers. All other property is assessed by the local assessor. SLF prepares an assessment roll of the manufacturing property located in a municipality and provides an assessment roll equated to the local level assessment for use in extending taxes. Owners of manufacturing property may appeal their values through the State Board of Assessors and the Wisconsin Tax Appeals Commission.

The basis for annual manufacturing real estate assessments is an appraisal of each parcel once every five years. One goal of IPAS is to increase the efficiency and effectiveness of the assessment and audit processes so SLF returns to the five-year field audit cycle. In the intervening years between appraisals, SLF adjusts for market changes. The basis for annual personal property assessment is self-reporting forms submitted by each manufacturer and utility, and an audit of each account once every five years. The process includes the following steps:

1. Annually identifying new manufacturing property to be added to the assessment roll and identifying properties that are no longer classified as manufacturing.
2. Real estate assessments are determined from current or adjusted appraisals and from changes reported on real estate self-reporting forms. The reasons for change include new construction, remodeling, etc.
3. Personal property assessments are determined by reviewing the personal property self-reporting forms that are submitted.
4. Mailing each manufacturer the assessment notices and instructions for an appeal.
5. Mailing penalty notices to manufacturers that fail to file self-reporting forms timely.

The field audit of manufacturing property includes the following:

1. Interviewing the owner or agent, inspecting the property, and reviewing or completing a listing of the physical characteristics of the property.
2. Completing an appraisal of the property by considering and documenting the following:
 - a) sales of the subject property;
 - b) sales of reasonably comparable property;
 - c) all data relevant to value collectively, which may include using a cost approach, a sale of similar property, an income approach, the actual costs and other data; and
 - d) a reconciliation of all the data and the final value estimate.
3. The field audit of personal property includes interviewing the owner or agent and an audit of the accounting records. In addition, a review of the manufacturing process will determine the appropriate classification of assets and proper reporting of leased equipment.

Background on Current IPAS-related Projects and Future Development

Included in Attachments D.1. and J is background information on future systems development related to Equalization, LGS, and M-forms e-filing. This information is provided so you are aware of future desired functions as you develop your proposal.